

# Joint Economic Committee WEEKLY ECONOMIC DIGEST

Senator Charles Schumer, Chairman  
Congresswoman Carolyn Maloney, Vice Chair

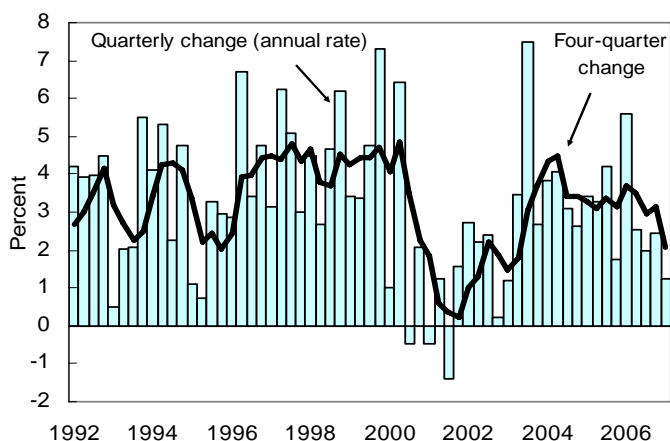
April 30, 2007

## ECONOMIC NEWS

### Disappointing GDP Growth in 1st Quarter

**Economic growth slowed sharply in the first quarter.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of just 1.3 percent in the first quarter, the slowest growth since early 2003. First-quarter growth was about half the 2.5 percent pace of the fourth quarter. That slowdown largely reflected a widening in the trade deficit, as exports of goods and services declined by 1.2 percent and imports grew by 2.3 percent. Over the past year, real GDP increased by 2.1 percent (See chart).

Growth of Real Gross Domestic Product



**Residential investment declined again in the first quarter.** Real investment in residential housing declined for the sixth consecutive quarter, dropping at a 17.0 percent annual rate in the first quarter and shaving a full percentage point off the growth of real GDP. The latest monthly indicators attest to ongoing weakness in housing: in March, total sales of single-family homes were 13.7 percent below the levels a year earlier.

**Business spending on equipment remained weak in the first quarter.** Real (inflation-adjusted) business investment in equipment and software grew at an annual rate of only 1.9 percent in the first quarter, after dropping by 4.8 percent in the fourth quarter. Investment has grown by just 0.8 percent over the past four quarters, the slowest four-quarter pace since early 2003. In March, new orders of nondefense capital goods (a monthly indicator of near-term investment trends) remained 0.6 percent below the levels a year earlier.

## IN FOCUS

### Are We Nearing the Bottom in the Housing Market?...The Jury's Still Out

On April 20th, Treasury Secretary Henry Paulson delivered an optimistic assessment of the slumping housing market, commenting that "All the signs I look at" show "the housing market is at or near the bottom." Indeed, most economists, including Federal Reserve Chairman Bernanke, predict that housing will turn around by mid-year.

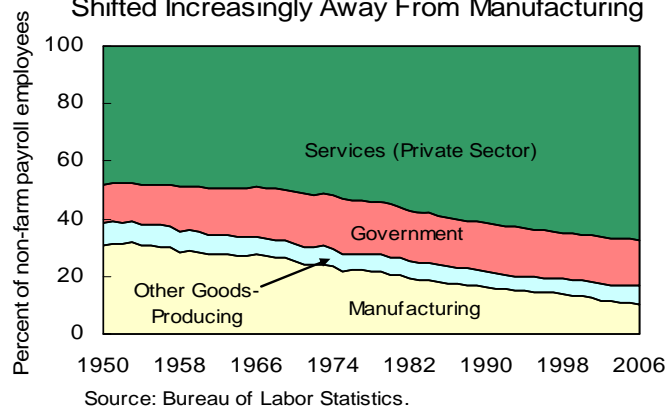
While the housing market cannot continue declining forever, the GDP report for the first quarter (released Friday) certainly does not suggest that a housing recovery is imminent. Residential housing investment shrank by 17.0 percent in the first quarter, following declines of 19.8 percent in the fourth quarter of last year, and 18.7 percent in third quarter.

New homebuilding was far more volatile in the first months of the year than the quarterly residential investment data indicate. New construction of privately owned housing plunged 14.3 percent in January to 1.399 million units at an annual rate. That was the lowest monthly rate in a decade. And, while new construction picked up in February and, to a lesser extent in March, new homebuilding is still

*Continued on next page...*

## SNAPSHOT

### The Composition of the U.S. Labor Market Has Shifted Increasingly Away From Manufacturing



Last week, United Steelworkers and several leading manufacturers formed a new alliance (Alliance for American Manufacturing) aimed at strengthening the support for the U.S. manufacturing base. Since 1950, manufacturing jobs have dropped from just over 30 percent of non-farm payroll employment to just 10 percent in 2006.

# Joint Economic Committee WEEKLY ECONOMIC DIGEST

## THE WEEK AHEAD

DAY	UPCOMING NEW RELEASES
<b>MONDAY 30</b>	Personal Income and Outlays (March 2007); Construction Spending (March 2007)
<b>TUESDAY 1</b>	National Association of Realtors' Pending Sales of Existing Homes (March 2007)
<b>WEDNESDAY 2</b>	Full Report on Manufacturer's Shipments, Inventories and Orders (March 2007)
<b>THURSDAY 3</b>	Productivity and Costs (First Quarter 2007, Preliminary)
<b>FRIDAY 4</b>	The Employment Situation (April 2007)

**FRIDAY, MAY 4th:**  
*The Labor Department  
Reports on April  
Employment;  
Expected to Be Lower  
Than March's 180,000  
Payroll Gains*

## ECONOMIC STATS AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	Apr	Mar	Feb	2007 Q1	2006 Q4	2006 Q3	2006	2005
Real GDP Growth (%)	—	—	—	1.3	2.5	2.0	3.3	3.2
Civilian Unemployment Rate (%)	n.a.	4.4	4.5	4.5	4.5	4.7	4.6	5.1
Labor Productivity (%)	—	—	—	n.a.	1.6	-0.5	1.6	2.1
Employment Cost Index (%)	—	—	—	3.2	3.6	3.6	3.1	3.3
CPI Inflation (%)	n.a.	7.4	4.9	3.8	-2.1	3.1	3.2	3.4
Core CPI Inflation (%)	n.a.	1.2	2.4	2.3	1.9	3.0	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measure at seasonally adjusted **annual** rates. Productivity is output per hour for private non-agricultural establishments. The Employment Cost Index is for civilian workers. Core CPI-U Inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics.

## IN FOCUS (Continued)

below its level in the closing months of last year. Moreover, homebuilder pessimism persists: in March, permits for new homebuilding were 25 percent below their level a year ago.

The inventory of unsold new homes has risen sharply. Over the first quarter of the year, the stock of unsold homes amounted to 7.8 months of sales (at current rates). That is the highest quarterly stock of unsold new homes since the first quarter of 1991.

The weakness in housing continues to be reflected in depressed house prices. Last week, the National Association of Realtors (NAR) reported that the median sales price of existing homes sold in March was \$217,000, 0.3 percent below the level a year earlier. The drop in home values lowers household wealth, and has the potential to temper growth in consumer spending.

Problems in the subprime market may also delay a recovery in housing. Lower home prices contribute to increases in mortgage delinquencies by making refinancings of adjustable-rate mortgages more difficult, and the problem is expected to continue as 1.8 million of adjustable rate mortgages are scheduled to reset in 2007 and 2008. Foreclosures are also on the rise: RealtyTrac, an Irvine, California based company that tracks foreclosures, reported 149,150 foreclosure filings across the nation in March, up 7 percent from February's level, and a staggering 47 percent more than in March 2006. Rising foreclosures could add significantly to the stock of homes waiting to be sold.

In short, while housing affordability is currently favorable and mortgage rates are relatively low in real terms, there are few encouraging signs in the housing market. The jury is still out on whether we are near the bottom in the housing market and can expect a turnaround soon.